



COMMUNITY DEVELOPMENT COMMISSION

County of Los Angeles

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Executive Director

December 16, 2003

Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**APPROVAL OF UPDATED LOS ANGELES COMMUNITY DEVELOPMENT
BANK TRANSITION PLAN (1, 2)
(3 Vote)**

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve the Los Angeles Community Development Bank (LACDB) Updated Transition Plan, with the conditions set forth in Attachment A, which provides for the closure of the LACDB by December 31, 2003 and the dissolution of the LACDB by December 31, 2004; and authorize the Executive Director of the Community Development Commission, as the Authorized Representative of the County of Los Angeles, to take any and all actions necessary to terminate the Comprehensive Agreement and related documents between the County of Los Angeles, the LACDB, the City of Los Angeles and other parties.
2. Authorize the Executive Director to take all actions and to execute or amend all documents required for the dissolution of the LACDB, and for the transfer of the remaining \$7,504,240 in Economic Development Initiative (EDI) grant funds and related \$10,000,000 in Section 108 authority from the LACDB to the County Economic Development Fund (EDF) for future use in the Empowerment Zone target census tracts and the surrounding buffer area of the Florence-Firestone and Willowbrook communities of unincorporated Los Angeles County, following approval as to form by County Counsel.
3. Authorize the Executive Director to execute or amend all documents, including the Section 108 Contract for Loan Guarantee Assistance and the Promissory Note, to obtain from the U.S. Department of Housing and Urban Development (HUD) an extension of the EDI Grant Agreement until December 31, 2007, or to extend and otherwise modify the EDI Grant

Agreement to allow for the use of the above funds by the County in the Empowerment Zone target census tracts and surrounding buffer area, following approval as to form by County Counsel.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION:

The attached Updated Transition Plan has been prepared by the LACDB as required by the Comprehensive Agreement that governs administration of the LACDB program. In accordance with the transition plan previously approved by your Board, the attached document provides for the closure of the LACDB, as well as for the full dissolution of the LACDB and the transfer of remaining assets to the County and the City of Los Angeles.

FISCAL IMPACT/FINANCING:

HUD originally awarded the following to the County for LACDB economic development loan and grant activities: \$15 million as an EDI grant, of which \$7,504,240 remains available; \$15 million in Section 108 Loan Guarantees, of which \$10,000,000 in authority and approximately \$954,942 in cash and loans is available; and \$10 million as an EDI grant and \$10 million in related Section 108 authority set-aside in the County's EDF, of which all remains available.

The total \$18,459,182 in remaining funds will be transferred to the County EDF for future economic redevelopment activities. Expenses related to closure of the County's portion of the LACDB, such as professional, legal and accounting services, will be paid from the \$351,000 in Empowerment Zone and non-federal funds included in the Commission's approved 2003-2004 Fiscal Year budget.

Future loans or grants made through the County EDF will be individually presented to your Board for approval prior to submission to HUD. These loans will be underwritten to ensure that sufficient collateral is obtained to cover the loan amounts and to limit the impact on the County general fund.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS:

On June 27, 1995, your Board approved the Comprehensive Agreement between the County of Los Angeles, the City of Los Angeles and the LACDB to provide funding for economic development loans and grants in specified areas of Los Angeles County. Your Board also approved the EDI Grant Agreement and authorized the execution of related contracts for Loan Guarantee Assistance and Promissory Notes to receive program funds from HUD.

The Comprehensive Agreement requires that the LACDB submit an annual plan each December. On December 10, 2002, in lieu of an annual plan, a transition plan was approved by your Board for closure of the LACDB by December 31, 2003, and transfer of remaining assets to the County and the City by December 31, 2004.

The attached Updated Transition Plan provides the steps to accomplish the goal of ending

the relationship between the County and the LACDB, although the LACDB may continue its relationship with the City. Within the Updated Transition Plan, discussions of loan portfolios, debt management, zone ventures, job creation/ placement coordination, legal matters and efforts toward self-sufficiency relate principally to the program within the City. Portions related to personnel actions, distribution of assets, account processes and procedures, and records maintenance are restated within the document, in accordance with what was previously approved by your Board.

In order to address the particular interests of the County, the attached conditions for approval of the Updated Transition Plan are provided to clarify the following: that all notices pursuant to the outstanding County Section 108 obligations will be directed to the Commission; that the LACDB will direct the Collateral Agent (Union Bank of California) to return all inactive original loan documents to the LACDB for inclusion in the County loan files; that the LACDB will direct its counsel to work with the City Attorney and County Counsel for the dissolution of the 501 (c) (3) corporation that is the LACDB; and other administrative actions that are in the interests of the County.

In accordance with HUD's requirement for public comment prior to closure of the LACDB, on October 14, 2003, the LACDB convened a public meeting regarding the Updated Transition Plan. One comment was received urging full utilization of the remaining funds. No further comments were received, and the LACDB Board of Directors and the Empowerment Zone Oversight Committee approved the Updated Transition Plan.

The Commission conducted public meetings on September 16, 2003 and September 30, 2003. No public comments were received at these meetings.

County Counsel has reviewed this letter.

IMPACT ON CURRENT SERVICES:

The Commission will continue to conduct the Empowerment Zone program through the operation of the County EDF.

Respectfully submitted,

CARLOS JACKSON
Executive Director

Attachment: 1

Attachment A

Conditions for Approval by the County of Los Angeles of the Updated Transition Plan Prepared

by

The Los Angeles Community Development Bank

The Community Development Commission of the County of Los Angeles ("Commission") represents the County of Los Angeles ("County") with respect to the Los Angeles Community Development Bank ("LACDB"), *Not A Commercial Bank*, activities in the Los Angeles Federal Empowerment Zone.

The Commission has requested that LACDB acknowledge that LACDB intends to take certain, specific steps to terminate the County's involvement with LACDB.

The Commission understands that the relationship between the City of Los Angeles and LACDB may not terminate by December 31, 2003, and that LACDB may not dissolve by December 31, 2003.

The Commission will require that the LACDB take the following steps for the efficient transfer of assets and responsibilities to the County by December 31, 2004:

1. LACDB will advise the Fiscal Agent (JPMorgan Chase Bank) that all notices pursuant to the outstanding County Section 108 obligations should be directed to the Commission. The Fiscal Agent will also be advised that, commencing with the February 2004 interest payment, the Commission will assume responsibility for servicing the outstanding County Section 108 obligations.
2. LACDB will direct the Collateral Agent (Union Bank of California) to return all inactive original loan documents to the LACDB for inclusion in the County loan files. The LACDB will transfer these inactive County loan files upon request to the Commission.
3. Subject to (a) its obligations under the Comprehensive Agreement among the County, the City of Los Angeles and LACDB and, (b) its obligations under applicable state and federal law, LACDB will formally assign its interest in the collateral and assets held by the Collateral Agent for the County as of December 31, 2003 to the Commission, as the agent of the County of Los Angeles.

4. After the conditions in the above Paragraph 3 have been satisfied, LACDB will notify the active borrowers of the change in servicing of their loans and will transfer the active loan files to the Commission for servicing. Collateral is to remain with the Collateral Agent.
5. LACDB will direct its counsel to work with the offices of the City Attorney and County Counsel for the dissolution of the 501(c)(3) corporation when and if it is decided that LACDB will dissolve.
6. When and if it dissolves, LACDB will transfer all non-financial assets to the City of Los Angeles for evaluation or sale and disposition and ultimate distribution to the County and City under the terms of the Comprehensive Agreement (or as the Comprehensive Agreement may be modified in the future).
7. LACDB acknowledges that the County has not approved further expenditures by the LACDB after December 31, 2003, except for minor costs related directly to the dissolution of the 501(c)(3) and the dissolution of or amendment of the Comprehensive Agreement.

LOS ANGELES COMMUNITY DEVELOPMENT BANK
(Not A Commercial Bank)

TRANSITION PLAN UPDATE:
Wind-Up and Dissolution by December 31, 2003

This Transition Plan Update ("Plan") has been prepared by the Los Angeles Community Development Bank ("LACDB") for the benefit of its stakeholders, the City of Los Angeles ("City") and the County of Los Angeles ("County"). The Plan provides updates to the six specific items of concern to the City, as identified in the action of the Los Angeles City Council on August 6, 2002, as concurred by the Mayor on August 13, 2002. The Plan also addresses matters of interest to the County. As noted in the Plan, the LACDB is proceeding with its planned wind-up and dissolution by December 31, 2003.

This Plan also meets the requirements of Section 8.02 (Revised Annual Plan) and Section 12.12 (Agreement Termination) of the Comprehensive CDB Agreement dated October 30, 1995 (as amended) by and among the LACDB, City and County.

ACTIONS REQUESTED

The LACDB requests that the City of Los Angeles and the County of Los Angeles:

- (1) Approve the Transition Plan providing for a wind-up and dissolution of the LACDB by December 31, 2003;
- (2) Adopt the Disposition of Assets described in the Plan;
- (3) Agree in writing to terminate the Comprehensive CDB Agreement; and,
- (4) Authorize the continued expenditure of the previously approved LACDB administrative budget necessary to effectuate the Plan.

CONTINUED PROGRESS IN MEETING THE NATIONAL OBJECTIVE

The LACDB has continued its efforts on working with active borrowers/investees to create job opportunities for Empowerment Zone and other low- and moderate-income residents of the City and County. The LACDB contends that its efforts at revitalizing the Los Angeles Empowerment Zone are not yet concluded. Businesses remain open and jobs continue to be created. The LACDB's renewed commitment to job creation monitoring has yielded impressive results.

Figure 1
Progress Toward Meeting Public Benefit and National Objective

Customer Jobs Documented Held By:	As of 6/30/01	As of 6/30/02	As of 6/30/03
Empowerment Zone Residents	242	752	795
Presumed Low/Mod Persons	0	1,287	1,383
Other Low/Mod Persons	<u>0</u>	<u>386</u>	<u>996</u>
<u>Total Low/Mod Employees</u>	242	2,429	3,174
<u>Total Jobs Created</u>	2,368	3,466	3,623
<u>Low/Mod Benefit</u>	10 %	70 %	88 %

Following a detailed audit by HUD's Office of Inspector General, the LACDB restated the Second Quarter 2001 job creation monitoring results. As shown in Figure 1, LACDB customers reported the creation of 2,368 new jobs as of 6/30/01. Of these, Empowerment Zone residents were documented to hold 242 full-time positions. The OIG acknowledged that the federal regulations permitted LACDB to count all jobs created at an Empowerment Zone business location as benefiting low-mod persons. In 2001, LACDB staff also initiated a systematic review of all employer reports to document jobs held by low-mod persons not residing in the Empowerment Zone. Finally, LACDB customers have continued to create new jobs, and with the assistance of LACDB staff and other resources, focusing hiring efforts on Empowerment Zone residents.

In the past two years, job creation has increased by over 50%, rising from 2,368 jobs in 2001 to 3,623 jobs in 2003. The number of Empowerment Zone residents hired by LACDB customers has tripled in the past two years, from 242 jobs in 2001 to 795 jobs in 2003. The EDI Grant Agreement calls for 51% of the positions created to be held by or made available to residents of the Empowerment Zone. Through June 30, 2003, residents of the Empowerment Zone hold 22% of the jobs created. Equally important, the number of jobs benefiting low-mod persons has jumped 13-fold, from 242 low-mod jobs in 2001 to 3,174 low-mod jobs in 2003. Nearly 90% of all jobs created by LACDB customers have benefited low-mod persons.

The LACDB will continue to build on these achievements through the end of 2003, working in concert with the City and County to expand job opportunities for Empowerment Zone residents and other low-mod persons.

UPDATE AND DISPOSITION PLAN

The following sections are organized as follows: a restatement of the Transition Plan objectives presented in October 2002, together with an update and discussion on the disposition of City and County assets acquired with federal funds.

I. LOAN PORTFOLIO

Apart from LACDB maintaining responsibility for loan servicing, there are two options available for managing the City and County loan portfolios.

A. Sale of the entire loan portfolio to a third-party entity

The LACDB has the ability, with the concurrence of the City and County, to sell all or portions of the loan portfolio. The proceeds from a sale would be used to defease or retire outstanding Sec. 108 obligations to HUD. A chief obstacle to a loan sale has been the deep discount required by investors to compensate for the non-conforming loan structures and ongoing job reporting requirements.

The recent passage and implementation of the New Markets Tax Credit Initiative has created new opportunities for the LACDB to pursue a loan portfolio sale. Under the New Markets initiative, tax credits are available to investors who originate or purchase loans located in qualifying low-income census tracts. The preponderance of the LACDB's loans is to businesses in qualifying census tracts. Tax credit investors exploring the purchase of the entire LACDB loan portfolio have contacted LACDB.

To take full advantage of the tax credit pricing available to investors under the New Markets initiative, LACDB needs to first become certified by the U.S. Department of Treasury as a Community Development Entity ("CDE"). Given a review of the CDE eligibility criteria, LACDB feels that certification, as a CDE is both possible and desirable. The LACDB plans to complete and submit an application for CDE certification by the end of 4th Quarter 2002, with the assistance of an outside consultant.

The LACDB will continue to actively seek proposals from qualified investors to purchase the loan portfolio, with pricing assumptions including CDE certification. By the end of 1st Quarter 2003, LACDB anticipates being in a position to work with the City and County to consider the sale of the entire LACDB loan portfolio to other certified CDEs.

B. Outsource Servicing of the Loan Portfolio to a Third-Party Entity

The LACDB will consider retaining a third-party entity to assume day-to-day responsibilities for managing the City and County loan portfolios. To implement such a change, LACDB would need to procure professional services through issuance of a Request for Proposals ("RFP"). The timing would include issuing an RFP by the end of 4th Quarter 2002, resulting in

the hiring of a third-party loan-servicing firm by end of 1st Quarter 2003. The services to be provided by such a third-party entity could include:

1. Loan Servicing. LACDB will prepare a draft Request for Proposals to be issued to qualified, third party entities with the following scope of services.
 - a. Monthly loan servicing (invoicing, collections)
 - b. Delinquency and default management
 - c. Loan forbearance services
 - d. Loan foreclosure services
 - e. Other related loan services
2. Compliance Monitoring. The draft RFP will also include the following scope of services.
 - a. Collection of Quarterly Wage and Withholding Reports (DE-6)
 - b. Preparation of Periodic Status Reports on Borrowers' Compliance with Public Benefit and National Objective Standards
 - c. Periodic Job Potential Audits
 - d. Coordination with City and County job linkage agencies to increase hiring of Empowerment Zone and other low- and moderate-income residents

Update: The LACDB has continued to service the City and County loan portfolios. These activities include the mailing of monthly invoices to borrowers, processing of loan payments, contacting past due borrowers and delinquent borrowers to bring accounts current. As necessary, LACDB has negotiated payment plans with borrowers experiencing financial setbacks. With regard to loans previously charged-off, LACDB continues to pursue defaulted borrowers to maximize recovery of funds.

As more fully described in Section XI, LACDB has elected not to pursue designation as a Certified Development Entity. CED certification was a prerequisite to a portfolio sale. Also arguing against sale of the loan portfolio was a need to continue monitoring of job creation by borrowers.

The LACDB is proceeding to outsource the servicing of the City loan portfolio by a qualified third-party. A Request for Proposals (RFP), developed in consultation with City staff, was issued on October 10, 2003. Proposals are due on November 5, 2003, and it is expected that a qualified firm or team of firms will be selected and under contract by December 8, 2003. The scope of services includes job creation monitoring and servicing of the loan portfolio. As called for in the RFP, the LACDB will notify borrowers of the change in loan servicing, transfer

working credit and compliance files to the selected firm(s), and work with the contractor to provide a smooth transition of responsibilities.

The County has elected to service the active loans in the LACDB loan portfolio. The borrowers will be notified that payments should be sent to the County, credit and compliance files will be transferred to the County and other appropriate actions taken prior to December 31, 2003 to ensure a seamless transition of responsibilities.

II. DEBT MANAGEMENT

The LACDB will prepare a financial analysis detailing (1) potential shortfalls, if any, between the net realizable value of Sec. 108 funded assets and outstanding Sec. 108 obligations, and (2) the projected inflow of borrower payments, and biannual interest payments to HUD on the outstanding Sec. 108 obligations. The LACDB will also evaluate the feasibility of an additional defeasance transaction in 2003.

- A. Net Realizable Value. LACDB will prepare an analysis of the difference between the net realizable value of City and County Section 108 funded assets and outstanding Section 108 obligations. The analysis attached to this Plan (see Attachment A) is current as of June 30, 2002.
- B. Repayment Analysis. LACDB will prepare an analysis of active borrower payment histories to determine LACDB's ability to service outstanding City and County Section 108 obligations. The analysis attached to this Plan (see Attachment B) is current as of August 31, 2002.
- C. Defeasance. During 2003, LACDB will evaluate the feasibility of using City and County cash accounts (i.e., loan repayment account, loan loss reserve and debt service reserve) to defease additional Section 108 obligations. However, the defeasance transaction that LACDB undertook in 2001 resulted in additional litigation ("Summit 2") brought on by the Summit plaintiff. Consequently, the LACDB will not proceed on planning any additional defeasance transactions until the Summit 2 matter is satisfactorily resolved.

Update: The LACDB has continued to service the outstanding Section 108 notes from borrower payments deposited to the City and County loan repayment accounts. In July 2003, funds were wired from the respective loan repayment accounts to HUD's Trustee to meet the August bi-annual interest payment on the City and County notes. Also in August, LACDB paid off approximately \$1.8 million of City Section 108 interim financing. The next bi-annual interest payments are due in February 2004.

The Summit 2 litigation was satisfactorily resolved earlier this year. Subsequently, LACDB identified a range of \$13 million to \$28 million of potential defeasance scenarios for consideration. Following consultation with the City, it was determined that, given the current interest rate environment in the bond markets, the costs associated with a defeasance transaction were not considered optimal. Accordingly, LACDB recommends that the City and County continue to monitor the interest rates and bond prices for potential defeasance an/or payoff opportunities in the future.

LACDB staff, in consultation with its outside auditor, is developing an updated projection and modeling of cash flow scenarios from the City loan portfolio to determine the magnitude of the shortfall relative to the \$45.4 million of Section 108 notes outstanding. This analysis will be completed in November 2003.

LACDB staff will notify JP Morgan Chase Bank (HUD's Trustee) of the LACDB's planned closure and request that they update all contact information for the periodic billings for interest on the outstanding notes.

III. ZONE VENTURES

To mitigate concerns about return on investment, management fees and job creation efforts associated with Zone Ventures, LACDB has retained outside financial consultants to explore the potential sale of the Zone Ventures portfolio and to identify strategic investment partners who may be willing to take on the remaining contractually committed management fees and follow-on investments.

To date, the LACDB's efforts to identify strategic investors and/or sell the portfolio have not proven fruitful. LACDB will continue to explore these and other options. For 2003, LACDB requests funding in the amount of \$875,000 for Zone Ventures management fees as well as City confirmation for the \$910,271 in EDI and Sec. 108 funds for Zone Ventures follow-on investments that remain unfunded under the Council-approved 2001 Business Plan. By June 30, 2003, LACDB will recommend options to the City on the optimal transition and/or exit strategy for the Zone Ventures portfolio.

The City has retained its own financial advisors to evaluate the Zone Ventures portfolio and recommend options that best maximize the public investment. The LACDB will use its best efforts to ensure that Zone Ventures cooperates fully with the City's consultant. The LACDB will require that it have access to and the ability to respond to any reports or financial analyses generated by the City's consultants.

Beginning with the quarter ending December 31, 2002, the LACDB will perform quarterly reviews of the financial statements of Zone Ventures' active portfolio

companies to better assess their viability. LACDB may complete these quarterly reviews with the assistance of an outside consultant.

Update: The LACDB has continued to manage the relationship with Zone Ventures, including responding to capital calls for investment in portfolio companies, payment of management fees and eligible partnership expenses.

In the Third Quarter 2003, LACDB responded to a capital call from Zone Ventures for an investment in a portfolio company. Subsequently, Zone Ventures advised LACDB that the fund was fully committed up to the \$35 million capital commitment and no further capital calls for portfolio companies were anticipated. The LACDB is current on management fees through the Fourth Quarter 2003. Management fees for the First Quarter 2004 are due on January 1, 2004.

LACDB is also responsible for monitoring Zone Ventures' compliance with the terms of the partnership agreement and the HUD Addendum, including, but not limited to the national objective requirements. In September 2003, LACDB issued a compliance status report to Zone Ventures advising them on the progress of the portfolio companies toward meeting the federal program requirements.

With regard to disposition of the Zone Ventures portfolio, LACDB approved a transaction in November 2002 to sell its limited partnership interest in the portfolio to an investor group led by the Bedford Group. That transaction was approved by the Los Angeles City Council in February 2003, subject to HUD's consent. The LACDB believes the transaction with the Bedford Group is in the best interests of LACDB, the City and HUD and advocates that the sale be consummated. Since it appears that HUD's approval may not occur before the LACDB's planned closure, LACDB intends to proceed with an assignment of its limited partnership interests to the City in order to ensure that the asset is secured. LACDB may also explore other disposition strategies for discussion with the City and Zone Ventures.

IV. JOB CREATION/PLACEMENT COORDINATION

Should the loan portfolio be outsourced to a third-party entity, it is possible that the firm selected will also be engaged to monitor job creation activities and prepare periodic reports to the City and County. By the end of 1st Quarter 2003, in the event the firms elect not to perform these functions, LACDB proposes to continue working with its active borrowers and investees towards meeting their contractual Public Benefit, National Objective and EDI Grant Agreement requirements. The LACDB will continue to aggressively coordinate the necessary linkages among borrowers/investees, Work Source Centers and other resources to increase hiring of Empowerment Zone and other low- and moderate-income residents.

- A. Job Potential Audits. Active borrowers and investees will be contacted on at least a quarterly basis to ascertain plans for hiring new employees in the near-term future. Job descriptions will be solicited and verified by LACDB's job creation specialist. Periodic status reports will be prepared and submitted to the City and County.
- B. Coordination of referrals to Work Source system. The LACDB will be responsible for contacting the appropriate Work Source Center and referring a business representative to the employer to assist in identifying qualifying Empowerment Zone residents. LACDB will conduct periodic follow-up with the employer to determine satisfaction with the services provided by the Work Source center. LACDB will communicate any concerns to the City's Workforce Development Division for appropriate corrective action.

Update: LACDB staff has continued monitoring job creation by borrowers and investees. The LACDB prepared quarterly public benefit/national objective status reports for the 4th Quarter 2002 and 1st Quarter 2003 that have been reviewed by the City/County outside auditor. The 2nd Quarter 2003 quarterly report has been prepared and is awaiting review by the City/County outside auditor. Also, in the 2nd Quarter 2003, LACDB staff provided input to the Annual Grantee Performance Report and Empowerment Zone Reports to HUD.

In the second quarter, LACDB staff prepared and mailed to each active customer a compliance status report detailing each customer's compliance with regard to job creation requirements. Subsequently, LACDB staff conducted site visits with each business to review the report and to identify job creation opportunities and technical assistance needs. Job potential audits were completed and, as appropriate, referrals made to an appropriate Work Source center.

The 3rd Quarter 2003 public benefit and national objective status report will be completed prior to December 31, 2003. Job creation and payroll data are due from active customers by November 15, 2003.

The previously referenced RFP provides for the selected loan-servicing provider to assume ongoing responsibility for job creation monitoring and reporting to the City.

V. PERSONNEL

The planned outsourcing of the loan servicing function and refocusing of the LACDB's efforts on financial/risk management and job creation/compliance activities will necessitate a reduction in force. It is expected that six positions will be eliminated by December 31, 2002. A further reduction in force may be necessary sometime in 2003 once the planned sale of the entire loan portfolio or

outsourcing of the loan servicing function is finalized. The LACDB will use its best efforts to have the third-party loan-servicing firm absorb all impacted LACDB employees.

- A. Reduction in Force – The LACDB will follow the procedures used during the last reduction in force in July 2000.
- B. Severance, Reduction in Force – In accordance with LACDB's policy, each impacted employee will be entitled to severance pay based on length of service. Please refer to Exhibit 1 (attached to this Plan) for a line item budget for severance pay in December 2002.
- C. Severance, LACDB Closure – In order to retain key LACDB staff until the proposed Plan is fully implemented, the LACDB Board has adopted a policy (see Attachment C) that will grant severance pay to each employee who remains with the LACDB until December 31, 2003. Please refer to Exhibit 1 (attached to this Plan) for a line item budget for severance pay due to LACDB closure.

Update: The headcount at LACDB is down to seven professionals (i.e., six regular employees and one part-time employee). It is expected that the six regular employees will remain with LACDB through the transition and closure at the end of 2003. As such, they are all eligible for the LACDB's approved severance benefits including severance/retention pay and medical benefits, pursuant to LACDB Board policy on "Severance, LACDB Closure". These administrative costs have been accrued on the LACDB's financial statements at September 30, 2003. No additional funds are required from the City or County to pay these administrative expenses.

VI. OTHER ASSETS

LACDB will provide an updated inventory on non-financial assets financed with City/County grant funds, together with an analysis of contractual commitments.

- A. Inventory of Non-Financial Assets. LACDB will prepare an update inventory of non-financial assets by June 30, 2003. This information will be communicated to the City and County.
- B. Soto Street Office Lease – The current office lease will expire on December 31, 2002. Pursuant to negotiations, the landlord will not accept any renewal term of less than 12 months. Consequently, the LACDB intends to extend the current office lease for an additional 12 months until December 31, 2003. The adjoining suite leased at the request of the HUD Office of Inspector General in 2001 will be released to the landlord on December 31, 2002. The files currently stored in the adjoining suite will be moved to the main office.

Update: LACDB is conducting a physical inventory of non-financial assets. The inventory should be completed by November 28, 2003; the results will be shared with the City and County. It is our current understanding that, although City and County funds were used to acquire the office furniture, office equipment and certain other items, that all items will be transferred to the City of Los Angeles.

The leased suite adjoining the LACDB headquarters was returned to the landlord on December 31, 2002. At that time, certain office furniture and equipment was transferred to the City of Los Angeles. All files were moved to the LACDB headquarters. The LACDB is finalizing a month-to-month extension of the office lease at Plaza Del Sol, from January 1, 2004 through March 31, 2004, to ensure an orderly transition and disposition of the LACDB net assets.

VII. ACCOUNT PROCESSES/PROCEDURES

The Oversight Committee has requested additional information on the LACDB's finances and accounting practices. LACDB engaged Thompson, Cobb, Bazilio & Associates to prepare an accounting policies and procedures manual that was completed on September 30, 2002. The manual will be of use to the City and County in planning for the transition of assets. A copy of the accounting policies and procedures manual is attached (see Attachment D) to this Plan.

Update: The year-end 2002 Single Audit was completed and the report issued in the 1st Quarter 2003. The first and second quarter financial reviewed were also completed and issued this year. The third quarter financial review should be completed and issued in November 2003. LACDB staff will initiate discussions with TCB&A on the timeline for completion of the 2003 Single Audit.

LACDB will notify Union Bank of California (the Collateral Agent) and Far East National Bank (LACDB operating account) about the planned closure so that all bank contact management records are updated.

VIII. RECORDS

LACDB requires ready access to certain borrower/investee files in order to actively manage its loan/investment agreements. The LACDB will work with the City and County to achieve an optimum plan to control LACDB records and files by March 31, 2003.

- A. Loan files
- B. Compliance files
- C. Other Bank records

Update: LACDB staff are reviewing, organizing and documenting all LACDB working and administrative files for appropriate disposition. Loan and compliance files of active accounts will be transferred to the selected loan service provider. Files for inactive accounts will be closed-out and filed for safekeeping. LACDB administrative and corporate files will also be boxed for safekeeping. LACDB is exploring the storage of non-essential files in offsite storage, with access to be provided to City and County staff.

IX. LEGAL MATTERS

Over the past two years, the LACDB has made considerable progress in its risk and litigation management. There are currently two active lawsuits remaining, the appeal to the Summit judgement ("Summit 1") and a related complaint filed by the Summit plaintiff ("Summit 2"). Summit 1 is scheduled for oral argument on October 15, 2002, and Summit 2 is currently abated by the trial court, pending resolution of Summit 1 by the Court of Appeal. LACDB anticipates providing the City with an assessment as to the final disposition of these two matters by March 31, 2003.

Update: The 2nd District Court of Appeals, found in favor of the Los Angeles Community Development Bank, and reversed the Summit 1 judgment earlier this year. The Summit 2 legal matter was also closed out. There are no outstanding legal matters involving the LACDB at the present time.

LACDB management will continue work with its outside legal counsel to meet all statutory and legal requirements to wind-up the business and legal affairs of the corporation by December 31, 2003.

X. COUNTY PROGRAM ACTIVITIES

For the past several months, LACDB, in conjunction with the County Community Development Commission ("County CDC") has been working closely with the Administration Office of the Charles R. Drew University located in the County portion of the Empowerment Zone to identify potential financing opportunities under the University's long-term business plan, including the development of the Life Science Building, the Eye Clinic, and the Child Development Center. Concurrent with the transition efforts outlined above, the LACDB will work closely with the County CDC to develop financing plans to deploy the remaining and uncommitted County portion of the EDI Grant (\$7,499,532 as of June 30, 2002) and Sec. 108 loan guarantees (\$10,000,000 as of June 30, 2002) to focus on these development projects.

Update: Throughout the year, the LACDB has worked closely with the County of Los Angeles Community Development Commission (LACDC) and with the

Empowerment Zone Oversight Committee to prepare for the closing of the LACDB by December 31, 2003. The LACDC has prepared a request to the U.S. Department of Housing and Urban Development (HUD) that the remaining balances of EDI grant funds and Section 108 authority, as of December 31, 2003, be transferred from the section of the EDI Grant Agreement related to the LACDB to the section of the EDI Grant Agreement related to the County's Economic Development Fund. This will allow the LACDC to fully utilize the remaining funds in the Empowerment Zone or within 1 mile of the Empowerment Zone in the designated buffer area. In addition to this transfer, the LACDC has requested a three-year extension of the agreement and prior approval for the consideration of activities that will provide goods and services to low- and moderate-income persons in projects that may not create jobs as originally required by the EDI Grant Agreement.

XI. EFFORTS TOWARDS SELF SUFFICIENCY

Concurrent with the transition efforts outlined above, the LACDB will explore two available options to move LACDB towards sustainable self-sufficiency.

A. LACDB becomes a certified Community Development Entity ("CDE")

Under the New Markets initiative, tax credits are available to investors who make equity capital investments in CDEs. CDEs will then deploy these funds to make qualified low-income community investments, including financial assistance in the form of loans and equity investments. As discussed above, LACDB plans to complete and submit an application for CDE certification by the end of 4th Quarter 2002. Once LACDB becomes a certified CDE, it will actively seek out investors, including commercial banks, to provide the necessary equity capital to move LACDB to sustainable self-sufficiency. This is the most desirable option since LACDB can continue its mission to provide capital access to low- and moderate- income communities while expanding its co-lending efforts with other financial institutions, including commercial banks.

B. LACDB raises sufficient private equity capital to continue its economic development mission.

The LACDB has spent a substantial amount of time and effort in the past to develop strategies to seek private equity capital to take over LACDB's economic development mission. While admitting that this is a difficult undertaking, the LACDB Board of Directors and Management desire to continue reaching out to private organizations, commercial banks, foundations, and other economic development funds and seeking out potential private investors.

The LACDB intends to meet with the City and County by June 30, 2003 to determine if it has received sufficient private capital commitments to move towards sustainable self-sufficiency or to turn over its assets to another entity.

Update: The LACDB advised the City and County in mid-June 2003 that it had made a determination not to pursue designation as a Certified Development Entity (CDE), nor to submit an application for tax credit allocation under the federal New Market Tax Credit (NMTC) program. If so designated, the LACDB would have potentially been able to sell its loans to other CDEs or CDFIs, conceivably, at a premium over par, provided the acquiring CDE/CDFI had received a tax credit allocation under the NMTC program. The determination not to proceed with the application was based on several reasons: First, Based on information on information provided by the U.S. Department of Treasury through the CDFI website, the Treasury Department is seriously behind in reviewing CDE applications. Treasury has assigned a higher priority to those CDE applications that are also requesting tax credit allocations. In the prior year, the tax credits were heavily oversubscribed; the allotments have been scaled back in last years and this year's federal budget. Thus, it appeared highly probable that LACDB would be closed before Treasury got around to a determination on our application. At the same time, it was unclear how best to portray the current/future entity status of the LACDB to maximize chances of being designated as a CDE. Second, the application requires that the LACDB Board, or a separate advisory Board, be populated with residents of the primary lending service area. None of the remaining LACDB Board members meet that test. LACDB management then considered using the Empowerment Zone Oversight Committee (EZOC) as an advisory group, but concluded against that option since none of the EZOC members are residents of the EZ (the primary service lending area).

The LACDB has been unable to attract sufficient private capital to continue its operations, without reliance on the public funding provided by the City and County. Accordingly, the LACDB has determined that dissolution of the nonprofit public benefit corporation, together with an orderly disposition of the corporate assets in accordance with the Comprehensive CDB Agreement applicable law, by December 31, 2003 is in the best interests of all parties.

LACDB, with assistance from legal counsel, is developing a list of the required corporate and management actions needs to close out the LACDB operations.